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Classified By: Political Minister Counselor  
Aubrey Carlson. Reasons 1.4 (b) and (d).

#### SUMMARY

[1](#)1. (C) Rural reform and development will be the primary theme of the upcoming plenary session ("Plenum") of the Chinese Communist Party's (CCP) Central Committee scheduled for October 9-12 in Beijing. The Party's selection of this topic reflects the leadership's belief that solving rural problems is critical both to maintaining overall economic growth and reform and to combating social instability, according to Embassy contacts. Set against the backdrop of the 30th anniversary of China's reform and opening policies, observers say the Plenum's focus on rural issues will commemorate the fact that Deng Xiaoping's historic reforms began in the countryside. Specific rural reform measures that could be unveiled at the Plenum reportedly include measures on rural land reform, grain security, rural finance, the household registration (hukou) system and integrated urban and rural planning, with Henan Province, the site of a recent visit by President Hu Jintao, purportedly serving as a "model." Other issues will almost certainly be discussed at the Plenum, even if they are not publicized, including overall macroeconomic policy and China's response to economic challenges posed by the U.S. financial crisis. Nothing significant is expected in terms of political reform or personnel changes, contacts say, although there are rumors of a possible shake-up in the economic ministries. End Summary.

#### PARTY PLENUM TO CONVENE IN OCTOBER

[1](#)2. (C) The 204 members and 167 alternates of the Communist Party's 17th Central Committee will meet in plenary session (a "Plenum") October 9-12 in Beijing to outline the country's key policy priorities for the coming year, with the meeting's primary theme being rural reform and development, according to PRC official media (ref A). China's state news agency Xinhua announced on September 28 that a CCP Politburo meeting held that day set the dates of the Plenum and approved a draft "Decision" that addressed "major issues" regarding "pushing forward rural reform and development." Xinhua said the draft "Decision" will be submitted to the Plenum for deliberation (and adoption). According to the report, the Politburo viewed rural reform and development as essential for maintaining social stability and food security, noting the need to strengthen agriculture, rely "mainly" on domestic

production to achieve "grain self-sufficiency," accelerate agricultural modernization, protect farmers' rights and interests and "ensure that (they) benefit from China's economic development," promote innovation in rural development, and coordinate urban and rural social and economic development. According to an earlier Xinhua report, Party General Secretary Hu Jintao will deliver a work report on behalf of the 25-member Politburo (ref B). In accordance with past practice, the Party is expected to release a communique upon the Plenum's closing that will outline select details of the session's decisions and will publish the text of the Decision on rural reform and development. (Note: This will be the Third Plenum of the 17th Central Committee. The First Plenum, held in October 2007, met to "elect" the new members of the Politburo immediately upon conclusion of the 17th Party Congress. The February 2008 Second Plenum met primarily to approve the slate of personnel appointments to Government positions just prior to the March 2008 National People's Congress.)

#### WHY THE FOCUS ON THE COUNTRYSIDE?

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¶3. (C) Embassy contacts and Chinese media have offered a number of explanations for the Plenum's declared focus on rural reform and development, beginning with the importance of the countryside to the national economy and the belief that rural problems must be solved in order to maintain overall economic growth and reform. For example, a commentary carried by the official PRC news agency Xinhua on July 26 (ref C) emphasized the "overall bearing" that rural issues have on the "development of the undertakings of the

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Party and State." The piece went on to say that the Plenum theme reflects the fact that, "The focus of building a well-off society in an all-round way is on the countryside, and the difficulty is there, too." Deng Yuwen (protect), senior editor at the Central Party School paper Study Times, stated things more succinctly by telling PolOff in late August that "China is still a country of peasants" and "agriculture is still the basis of the economy." Moreover, Deng emphasized, because rural problems are still very pressing, China cannot move ahead on overall (economic) reform without solving them first. Central Party School (CPS) Vice President Li Junru (protect) separately echoed Deng's comment by telling the Ambassador on September 18 that "rural problems need to be tackled in order to continue the momentum of economic growth" (ref D).

¶4. (C) Combating social instability is another motive behind selection of this year's Plenum theme, according to Embassy contacts. Well-connected freelance journalist Chen Jieren (protect) told PolOff August 27 the Party has chosen to focus on rural reform because it is "fully aware" that the "major threat to social stability" emanates from the countryside. Chen, who said he recently traveled extensively throughout southern China to interview peasants and officials in places such as Hunan, Hubei and Guangdong Provinces, found the situation there "very serious." He asserted that most people in these areas "absolutely will not listen" to local leaders due to widespread anger over issues such as corruption. While the Party remains firmly in control, incidents such as the June riots in Weng'an County, Guizhou Province, are "increasingly common," Chen said. The Study Times' Deng Yuwen separately referred to instability such as the violent protests in Weng'an as demonstrating a reason to tackle rural reform at the Plenum, pointing to rural-urban income gaps and inadequate rural health care and educational systems as additional challenges and causes of dissatisfaction.

¶5. (C) Set against the backdrop of the 30th anniversary of China's reform and opening policies that began in 1978 at the Third Plenum of the 11th Central Committee, the decision to focus on rural issues at this year's Plenum is also designed to commemorate the fact that Deng Xiaoping's historic reforms

began in the countryside. The PRC-owned Hong Kong newspaper Ta Kung Pao, which often serves as a mouthpiece for the Mainland, stated on September 15, "China's reforms started in the rural areas 30 years ago, and today the top level is again arranging a new round of reforms commencing in the rural areas. This is also seen as a method of commemoration, full of practical significance, of the 30 years of reform and opening" (ref E). Separately, the Study Times' Deng Yuwen expressed similar sentiments, asserting that the Party wants to honor during this anniversary year the first major breakthroughs in reform made 30 years ago. At that time, then-paramount leader Deng Xiaoping's reforms in the countryside commenced with the dismantling of the communes and the establishment of the household contract system. It is therefore only fitting to focus on rural areas again now, Deng Yuwen averred.

#### SPECIFIC REFORM MEASURES: HENAN AS MODEL?

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¶6. (C) Although it remains unclear precisely what specific rural reform measures will be approved by the Plenum, PRC media and Embassy contacts have provided clues as to the range of possibilities, which include rural land reform, grain security, rural finance, the household registration (hukou) system, provision of public services and integrated urban and rural planning. For example, in his recent meeting with the Ambassador, CPS Vice President Li Junru said Henan Province's successful promotion of "simultaneous industrial and agricultural development" caught the leadership's attention, and that the Plenum will discuss the "Henan model," which demonstrates that rapid urbanization serves rural interests (ref D). Li pointed out that President Hu Jintao completed an official visit to Henan earlier in September, a trip the PRC-owned Hong Kong media has claimed "set the tone" for the Third Plenum (ref E).

¶7. (C) During Hu Jintao's September 8-10 visit to Henan, he held discussions with local officials, enterprises and farmers, placing heavy emphasis on continued urbanization of rural China and calling specifically for "a new pattern of integrating urban and rural economic and social development," according to Xinhua on September 10. Hu visited a variety of local enterprises that rely heavily on farm labor or are run by farmers themselves, stressing subjects that appear to anticipate the key themes of the Plenum. For example, Hu

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called for "major breakthroughs" in strengthening the "basic institutions governing business operations" in rural areas, increasing agricultural productivity, and coordinating the distribution of public services, finance and resources to urban and rural areas. In particular, he emphasized expanding small-scale rural industries, praised "peasant-operated specialized cooperatives," which he called a "new-style business among farmers," and called for "developing economies of scale through forming specialized cooperatives" to boost peasant incomes. He acknowledged the need to increase Government subsidies for agricultural inputs and the purchase of farm machinery. Finally, Hu warned of the need to maintain sufficient grain reserves to ensure "food security." He said the best way to accomplish this is through accelerated scientific research to increase agricultural productivity, including support for local agricultural institutes and more technical training for rural cadres.

¶8. (C) Among the possible policy initiatives to be discussed at the Plenum, according to PRC media and Embassy contacts, are changes in rural land ownership and land-use patterns and in the mechanisms for providing credit to farmers and rural industries. Prominent Central Party School scholar and economist Zhou Tianyong (protect) on September 11 told EmbOffs that the key issues concerning land reform likely to be addressed at the Plenum are: Can land be given to farmers? Can land be sold on the market? Can land be used

as collateral? Can the land be contracted to farmers forever, without 10-year or 30-year term limits? (Note: Zhou did not, however, provide any predictions on what answers the Plenum might provide to these questions.) A September 15 article in the PRC-owned Hong Kong newspaper Ta Kung Pao claims land reforms will be designed both to prevent the seizure of peasants' land and to enable peasants to possess "asset-style income." (Note: Many Mainland economists have pointed to peasants' lack of land ownership -- and thus of any assets to use as collateral for loans -- as a primary cause of the failure to increase rural economic productivity.) Quoting a Mainland expert, the Ta Kung Pao piece claims the Plenum will clarify collective land property rights, perfect the land eminent domain seizure system, extend the time limit of land-use rights and allow transfer of land for non-agricultural issues -- but "privatization" of land will not yet be possible (ref E).

19. (C) A companion piece in the same Ta Kung Pao issue predicted "the new land reform" will be "the most important topic" at the Plenum (ref F). It also quoted a Beijing rural expert as stressing the importance of liberalizing land-use rules to allow land to circulate and farmers to gain new kinds of income from their land while not violating the strictures against straying from agricultural use. The expert called for sweeping changes in "the system for managing land use," including developing a "unified land market" that would include "sales, leasing, transfer, subleasing, mortgages and equity acquisition" in order to "truly raise farmers' incomes." He advocated allowing the right to contract land to "circulate," including developing "a joint stock system" for farmers "to use contracted land to acquire equity" as long as land is still used for agricultural purposes. He emphasized, in particular, that the current residential land management system restricts farmers' "rights and interests" and labor mobility. Calling residential land "an important piece of property" for farmers, the rural expert called for new ways of circulating and mortgaging residential land rights and for granting farmers "permanent usufructuary rights" to such land. Prominent Beijing University economist Li Yining made similar points in an interview published in the popular PRC newsweekly Zhongguo Xinwen Zhoukan on September 22. Li argued that abolishing the current "dual urban-rural system," including the household registration system, strictures on land-use transfers, rural finance and other obstacles to the generation of rural wealth, is essential for continued economic development, especially in moving toward domestic consumption to drive demand.

110. (C) Reform of the rural finance system is another major issue that needs to be tackled in order to push reform forward and which may be included among policy options discussed at the Plenum, according to the Central Party School's Zhou and PRC-owned Hong Kong media. Zhou told PolOff that Premier Wen Jiabao favors strengthening credit institutions in rural areas, but Zhou did not know if this idea would be included in the Plenum document. He said that China has local pilot lending companies now, but the requirements are strict and the threshold for qualifying is

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high. He noted that tight credit for local SMEs can result in more unemployment. One of the Ta Kung Pao articles predicted that the Plenum will make a "theoretical breakthrough" in the rural financial system (ref F). It quoted a Beijing agriculture expert as stating that the lack of financial resources in rural areas is a "conspicuous problem" that makes it "very difficult" for farmers to secure loans for business ventures and that restricts balanced urban-rural development. He recommended a new financial system along with "clearly defined property rights" as essential for sustainable development.

BROADER ECONOMIC DEBATES?

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¶11. (C) While rural reform and development is officially the main theme of the Plenum, a range of Embassy contacts have downplayed the real significance of the Plenum's focus on the rural economy. Yu Yongding, Director of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences, told EmbOffs in early September that the PRC's policies to change rural incomes have been set in the Five-Year Plan and are working fine. He added that he does not expect much new to come out of the Plenum. Several contacts have emphasized that other issues will certainly be discussed, even if they are not publicized, including macroeconomic policy and China's response to the ongoing global financial crisis. For example, Dong Yuyu (protect), editor at the Central Committee newspaper Guangming Ribao, told PolOffs on August 29 that the key Plenum discussions will focus on determining the direction of China's macroeconomic policy, such as the balance between rapid growth and controlling inflation and responding to various global economic challenges, including the global credit crunch. Dong Yuyu's comments were echoed by freelance journalist Chen Jieren and CASS scholar Dong Lisheng (protect). Wang Wen (protect), an editor at the Renmin Ribao-affiliated newspaper Global Times, bluntly told PolOff on September 26 that major Party events such as the Plenum "never" state publicly what the "real" purpose of such meetings are. While acknowledging the importance of rural reform, Wang nevertheless speculated that dealing with the shocks from the downturn in China's stock and real estate markets, coupled with concerns over the international financial crisis, will be the "most important" topics of discussion among Party members at the Plenum.

NOTHING SIGNIFICANT EXPECTED ON POLITICAL REFORM, PERSONNEL  
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¶12. (C) Embassy contacts have unanimously agreed that it is highly unlikely that anything "major" will happen regarding political reform or personnel moves at the Plenum. The past year has seen significant public and private discussion over possible political reforms, possibly linked to the "thought liberation" campaign and experiments with measures to promote "inner-Party democracy." Recently, two Embassy contacts suggested that there is discussion of reducing or abolishing the township (xiang) level of administration, in part to reduce the number of cadres. Downplaying the significance of any of these possible reforms, Guangming Ribao's Dong Yuyu argued that they are designed only to enhance the Party's ruling efficiency, not promote democratic values or erode Party control. Journalist Chen Jieren separately agreed, asserting that, even though some of these reforms may eventually prove effective at combating corruption and enhancing Party legitimacy, they are, at best, "incremental measures." Dong Yuyu argued that "real" changes to the current governing model of economic reform coupled with tight political control will occur only when the risk of not reforming outweighs maintenance of the status quo. "And we are far from that point," he said. Regardless, both Dong and Chen agreed that political reform simply is not the focus of this upcoming Plenum.

¶13. (C) Dong Yuyu and Chen also downplayed the likelihood of any major personnel changes, with both noting that leadership politics is "highly stable" now following the installation of new leaders at the October 2007 Party Congress. Nevertheless, there are rumors of a possible shake-up of the economic ministries. NDRC economist and former central banker Xia Bin said that Vice Premier Wang Qishan is unhappy with the performances of Minister of Finance Xie and People's Bank of China Governor Zhou. Banking insiders pointed to the recent plan to move Bank of Communications head Jiang Chaoliang to China Development Bank as the first in a series of personnel moves that will at some point culminate in ministry-level changes.

COMMENT

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¶14. (C) Major Communist Party events such as the upcoming 17th Central Committee Third Plenum play an important role in determining, or at least endorsing and legitimizing, the CCP's future policy priorities. In this case, the Party Plenum is most likely designed to flesh out some of the general proposals made by Hu Jintao at last year's 17th Party Congress under the rubric of his "Scientific Development Concept," particularly in terms of rural reform, designed to help those who have benefited least from the past 30 years of reform and opening. Regardless of what policies and new "reforms" are approved at the Plenum and eventually publicized, however, skeptical observers in Beijing will continue to emphasize that actual implementation, not mere endorsement, of any new measures is what matters most.  
PICCUTA